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RHMFISS/HQ USEUCOM VAIHINGEN GE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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UNCLAS SECTION 01 OF 02 ANKARA 000775

SIPDIS

SENSITIVE
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TREASURY FOR PLANTIER

E.O. 12958: N/A
TAGS: [ENRG](#) [EFIN](#) [EPET](#) [IZ](#) [TU](#)
SUBJECT: SOMO ARREARS RESCHEDULED, LOADINGS STILL ON HOLD

REF: ANKARA 278

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SENSITIVE BUT UNCLASSIFIED.

This message was coordinated with Consulate Adana.

11. (SBU) Summary. Turkish and Iraqi negotiators have agreed on a repayment plan for arrears due by SOMO to Turkish companies and a new letter of credit-based mechanism to secure payments on future deliveries. Before shipments to SOMO can resume, SOMO and the 33 individual Turkish trading companies will need to negotiate separate supply contracts covering types of fuels, quantities, and prices. Those discussions are ongoing, but the organization representing the suppliers is skeptical that SOMO will adhere to the new rules. End Summary.

ARREARS TO BE PAID BY YEAR-END

12. (SBU) On February 15, after four days of difficult negotiations in Ankara, the Turkish Foreign Trade Undersecretariat (FTU) and an Iraqi delegation signed an MOU covering a payment plan for late payments due by SOMO to Turkish oil products suppliers. Payment of the full amount of approximately \$640 million in agreed arrears will take place in nine equal monthly installments to which a 3% interest rate will be applied. Payments will be covered by irrevocable letters of credit opened in favor of individual suppliers. The two sides agreed to continue discussion of approximately \$292 million in contested amounts. In addition to SOMO, the Iraqi delegation included representatives of the Prime Ministry (Fadel Kadhum, head of del), Ministries of Oil and Finance, the Trade Bank of Iraq, and the Supreme Audit Board.

FUTURE DELIVERIES ONLY WITH LETTER OF CREDIT

13. (SBU) In the same MOU, the two delegations agreed on a new payments mechanism that is intended to avoid the renewed accumulation of arrears on future deliveries by requiring that such deliveries only be made on the basis of irrevocable letters of credit. There was also an agreement to establish a mechanism for settling disputes by establishing a committee that will meet monthly. The committee members include SOMO and the supplier companies, as well as representatives of FTU and the Trade Bank of Iraq.

SUPPLIER LEVEL AGREEMENTS BEING NEGOTIATED

14. (SBU) The next step before companies renew loading of fuel onto tanker trucks at Turkish ports is for SOMO to negotiate individual supply agreements with the 33 Turkish companies covered by the agreement. We understand that as of Friday, February 17 these negotiations are ongoing in Istanbul. According to the Turkey-Iraq Business Council, to which most of the companies belong and which represents their interests, SOMO says it has a total monthly budget of \$250 million for external fuel purchases (including from Turkey and other countries). The Council says that given past performance, they do not have confidence that SOMO will respect the terms of the February 15 agreement, but that they are willing to give it another try.

15. (SBU) Consulate Adana reports that representatives in Mersin port of Petrol Ofisi (PO), one of the largest suppliers, say discussions between SOMO and Turkish companies are about 70-80% complete. Turkish companies are content with progress so far, but that all the important details are not yet agreed. As of Friday

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afternoon, neither PO nor the others in the consortium have made arrangements to load new fuel, although there is a slim possibility that loadings could resume over the weekend.
WILSON